

Long-Term Financial Policies And Tools

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LONG-TERM FINANCIAL POLICIES AND TOOLS

This section identifies some of the major policies, long-term financial management tools and planning documents which serve as guidelines for decisions and contribute directly to the outstanding fiscal reputation of the County. Adherence to these policies historically has enabled the County to borrow funds at the lowest possible interest rates available in the municipal debt market.

Fairfax County is proud to have been named "one of the best-managed jurisdictions in America" by *Governing* Magazine and the Government Performance Project (GPP). The GPP conducted a comprehensive study evaluating the management practices of 40 counties across the country and Fairfax County received an overall grade of "A-," one of only two jurisdictions to receive this highest grade.

The keystone to the County's ability to maintain its fiscal integrity is the continuing commitment of the County's Board of Supervisors. This commitment is evidenced by the County Board's adoption in 1975 of *Ten Principles of Sound Financial Management*, which remain the policy context in which financial decisions are considered and made. These principles relate primarily to the integration of capital planning, debt planning, cash management, and productivity as a means of ensuring prudent and responsible allocation of the County's resources.

In addition to the *Ten Principles of Sound Financial Management*, this section includes an overview of the County's long-term financial policies with a brief description of policies relating to the budget guidelines, reserves, internal financial controls, debt management, risk management, information technology, and investments. Long-term financial management tools and planning documents used by the County are also briefly described.

Ten Principles of Sound Financial Management

The *Ten Principles of Sound Financial Management* adopted by the Board of Supervisors on October 22, 1975, endorsed a set of policies designed to contribute to the County's fiscal management and maintain the County's "triple A" bond rating. The County has maintained its superior rating in large part due to its firm adherence to these policies. The County's exceptional "triple A" bond rating gives its bonds an unusually high level of marketability and results in the County being able to borrow for needed capital improvements at low interest rates, thus realizing significant savings now and in the future for the citizens of Fairfax County.

From time to time the Board of Supervisors has amended the *Ten Principles of Sound Financial Management* in order to address changing economic conditions and management practices. Prior to FY 2003, the last amendment to the *Ten Principles* was in August of 1988. Since that time the County has experienced dramatic shifts in the economy and witnessed significant changes to financial tools and the markets. In the last few years interest rates have reached historic lows. There have also been many new opportunities to accomplish major capital improvements through the use of alternative financing while maintaining the County's fiscal integrity as required by the *Ten Principles*. Accomplishments such as Metro station parking garages, construction of Route 28, the opening of commuter rail, and construction of government facilities have all been attained in addition to a robust bond construction program. In the last 10 years the County has approved over \$1.5 billion of new debt at referendum, primarily for Schools; and refunded over \$1.0 billion of debt achieving approximately \$50 million in savings. Implementation of a Master Lease program and judicious use of short term lease purchases for computer equipment, copier equipment, school buses, and energy efficient equipment have permitted the County and the Schools to maximize available technology while maintaining budgetary efficiency.

In FY 2003, amendments to the *Ten Principles* were necessary to address these changed conditions. The availability of resources, the application of new tools, and the expectations of the marketplace require prudent and responsible management as reflected by the financial policies. Staying current will allow the County to continue to maintain its superior position and fiscal integrity.

LONG-TERM FINANCIAL POLICIES AND TOOLS

Summary of Amendments to the Ten Principles: April 2002

The following is a summary of the major amendments approved for the *Ten Principles*. The full text of the last version (August 1988) and the FY 2003 amended version (April 2002) follow for detailed review.

- Increases annual authorized sales from \$150 million to \$200 million per year (with a technical limit of \$225 million) based on revised debt capacity analysis resulting from sustained increase in the tax base.
- Reaffirms the current debt limits: net debt shall be no more than 3 percent of market value of taxable property, and debt service shall not exceed 10 percent of General Fund disbursements.
- Reaffirms the County commitment to a dynamic planning process and further integrates the financial policies with the Comprehensive Plan and the Capital Improvement Program.
- Establishes a new policy limit for lease-purchase debt secured by equipment to no more than 3 percent of General Fund disbursements. Lease-purchase payments have become an increasingly useful tool for stabilizing operating expenses and gaining efficiency in the management of large capital equipment inventories. As operating expenses, the County does not view these expenses as impacting the bond sale capacity. However, the rating agencies do review lease commitments when assessing the County's overall debt burden. Therefore, a prudent approach to these expenses is recommended that places a reasonable amount of control, yet still provides the flexibility to conduct efficient operations.
- Establishes a new policy statement that includes debt subject to annual appropriation, such as capital leases for real estate, in the calculation of debt ratios on par with general obligation debt. This is in accordance with rating agency practice in determining the County's debt burden.
- Includes a new statement affirming the County's commitment to strong internal controls.
- Includes a policy defining and establishing the use of the County's moral obligation and clarifies the definition of underlying debt.
- Includes various administrative and editorial changes to reflect updated data and current budgetary practices, such as the management of the Revenue Stabilization Fund.

LONG-TERM FINANCIAL POLICIES AND TOOLS

Ten Principles of Sound Financial Management August 1988

1. The **planning system** in the County will continue as a dynamic process that is synchronized with the operating and capital budgets, and the capital improvement program. The County's land use plans shall not be allowed to become static. There will continue to be periodic reviews of the plans at least every five years. Small area plans shall not be modified in isolation from and in contradistinction to contiguous plans.
2. Annual budgets shall continue to show **fiscal restraint**. Further, it is imperative that a positive cash balance (surplus) be shown in the General Fund at the end of each fiscal year. If necessary, spending during the fiscal year will be reduced sufficiently to create such a cash surplus.
 - a. A managed reserve shall be maintained in the General Fund at a level sufficient to provide for temporary financing of unforeseen needs of an emergency nature, and to permit orderly adjustment to changes resulting from termination of revenue sources through actions of other governmental bodies. The reserve will be maintained at a level not less than 2.0 percent of total General Fund disbursements in any given year.
 - b. As part of the Board's policy on appropriation during quarterly budget reviews, nonrecurring revenues should be used for either capital expenditures or other nonrecurring expenditures. Quarterly review adjustments are not to exceed 2.0 percent of the General Fund disbursements. The intent is to apply this restriction on an annual basis.
3. If a **deficit** appears to be forthcoming, the Board will **reduce appropriations** or **increase revenues**.
4. The County's **debt ratios** shall be maintained at the following levels:
 - a. Net debt as a percentage of estimated market value, which is now at 1.43 percent¹; should always remain less than 3.0 percent.
 - b. The ratio of debt service expenditures as a percentage of General Fund disbursements which is now at 8.6 percent¹ should remain under the 10.0 percent ceiling. The County will continue to emphasize pay-as-you-go capital financing. Financing capital projects from current revenues is indicative of the County's intent to show purposeful restraint in incurring long-term debt. To this end, for planning purposes, the target on annual bond sales will be \$150 million, or \$750 million over a five-year period, with a technical limit of \$175 million in any given year. This planning limit shall exist even though the ratio of debt to taxable property value remains less than 3.0 percent and the ratio of debt service to General Fund disbursements remains less than 10.0 percent.
5. Fairfax County's **cash management system** is one of the best in the country and must continue to receive full support and cooperation from all County agencies, including the Public Schools. Such a system is an indication of the soundness and professionalism of the County's financial management.
6. The **budgetary process** will continue to be oriented toward management by objectives (MBO) and must continue deliberately toward full utilization of the system.
7. All efforts must be made to **improve the productivity** of the County's programs and its employees. The County's productivity analysis process is a dynamic part of the administration. Its presence, together with MBO, are indications of the strength of the County's commitment to continual improvement of its fiscal management.
8. A continuing effort to **reduce duplicative functions** within the County government and the autonomous and semi-autonomous agencies, particularly those that receive appropriations from the General Fund, must be made.
9. **Underlying debt** must not expand beyond that level already contemplated. The creation of additional sanitary districts for the purpose of incurring bonded indebtedness will be discouraged. Revenue bonds of agencies supported by the General Fund will be analyzed carefully for fiscal soundness. The issuance of County revenue bonds will be subject to the most careful review. These revenue bonds must be secured by extremely tight covenants to protect the name of the County in its other borrowings.
10. Fairfax County must continue to **diversify its economic base** by encouraging commercial and, in particular, industrial employment and associated revenues. Such expansion of business and industry must be in accord with the plans and ordinances of the County.

¹ As of June 30, 2001

LONG-TERM FINANCIAL POLICIES AND TOOLS

Ten Principles of Sound Financial Management April 2002

1. **Planning Policy.** The planning system in the County will continue as a dynamic process, which is synchronized with the capital improvement program, capital budget and operating budget. The County's land use plans shall not be allowed to become static. There will continue to be periodic reviews of the plans at least every five years. Small area plans shall not be modified without consideration of contiguous plans. The Capital Improvement Program will be structured to implement plans for new and expanded capital facilities as contained in the County's Comprehensive Plan and other facility plans. The Capital Improvement Program will also include support for periodic reinvestment in aging capital and technology infrastructure sufficient to ensure no loss of service and continued safety of operation.
2. **Annual Budget Plans.** Annual budgets shall continue to show fiscal restraint. Annual budgets will be balanced between projected total funds available and total disbursements including established reserves.
 - a. A managed reserve shall be maintained in the General Fund at a level sufficient to provide for temporary financing of critical unforeseen disbursements of a catastrophic emergency nature. The reserve will be maintained at a level of not less than two percent of total Combined General Fund disbursements in any given fiscal year.
 - b. A Revenue Stabilization Fund (RSF) shall be maintained in addition to the managed reserve at a level sufficient to permit orderly adjustment to changes resulting from curtailment of revenue. The ultimate target level for the RSF will be three percent of total General Fund Disbursements in any given fiscal year. After an initial deposit, this level may be achieved by incremental additions over many years. Use of the RSF should only occur in times of severe economic stress. Accordingly, a withdrawal from the RSF will not be made unless the projected revenues reflect a decrease of more than 1.5 percent from the current year estimate and any such withdrawal may not exceed one half of the RSF fund balance in that year. Until the target level is reached, the Board of Supervisors will allocate to the RSF a minimum of 40 percent of non-recurring balances identified at quarterly reviews.
 - c. Budgetary adjustments which propose to use available general funds identified at quarterly reviews should be minimized to address only critical issues. The use of non-recurring funds should only be directed to capital expenditures to the extent possible.
 - d. The budget shall include funds for cyclic and scheduled replacement or rehabilitation of equipment and other property in order to minimize disruption of budgetary planning from irregularly scheduled monetary demands.
3. **Cash Balances.** It is imperative that positive cash balances exist in the General Fund at the end of each fiscal year. If an operating deficit appears to be forthcoming in the current fiscal year wherein total disbursements will exceed the total funds available, the Board will take appropriate action to balance revenues and expenditures as necessary so as to end each fiscal year with a positive cash balance.
4. **Debt Ratios.** The County's debt ratios shall be maintained at the following levels:
 - a. Net debt as a percentage of estimated market value shall be less than 3 percent.
 - b. Debt service expenditures as a percentage of General Fund disbursements shall not exceed 10 percent. The County will continue to emphasize pay-as-you-go capital financing. Financing capital projects from current revenues is indicative of the County's intent to use purposeful restraint in incurring long-term debt.
 - c. For planning purposes annual bond sales shall be structured such that the County's debt burden shall not exceed the 3 and 10 percent limits. To that end sales of general obligation bonds and general obligation supported debt will be managed so as not to exceed a target of \$200 million per year, or \$1 billion over 5 years, with a technical limit of \$225 million in any given year. Excluded from this cap are refunding bonds, revenue bonds or other non-General Fund supported debt.

LONG-TERM FINANCIAL POLICIES AND TOOLS

Ten Principles of Sound Financial Management April 2002

- d. For purposes of this principle, debt of the General Fund incurred subject to annual appropriation shall be treated on a par with general obligation debt and included in the calculation of debt ratio limits. Excluded from the cap are leases secured by equipment, operating leases, and capital leases with no net impact to the General Fund.
 - e. For purposes of this principle, payments for equipment or other business property, except real estate, purchased through long-term lease-purchase payment plans secured by the equipment will be considered to be operating expenses of the County. Annual General Fund payments for such leases shall not exceed 3 percent of annual General Fund disbursements, net of the School transfer. Annual equipment lease-purchase payments by the Schools and other governmental entities of the County should not exceed 3 percent of their respective disbursements.
5. **Cash Management.** The County's cash management policies shall reflect a primary focus of ensuring the safety of public assets while maintaining needed liquidity and achieving a favorable return on investment. These policies have been certified by external professional review as fully conforming to the recognized best practices in the industry. As an essential element of a sound and professional financial management process, the policies and practices of this system shall receive the continued support of all County agencies and component units.
6. **Internal Controls.** A comprehensive system of financial internal controls shall be maintained in order to protect the County's assets and sustain the integrity of the County's financial systems. Managers at all levels shall be responsible for implementing sound controls and for regularly monitoring and measuring their effectiveness.
7. **Performance Measurement.** To ensure Fairfax County remains a high performing organization all efforts shall be made to improve the productivity of the County's programs and its employees through performance measurement. The County is committed to continuous improvement of productivity and service through analysis and measurement of actual performance objectives and customer feedback.
8. **Reducing Duplication.** A continuing effort shall be made to reduce duplicative functions within the County government and its autonomous and semi-autonomous agencies, particularly those that receive appropriations from the General Fund. To that end, business process redesign and reorganization will be encouraged whenever increased efficiency or effectiveness can be demonstrated.
9. **Underlying Debt and Moral Obligations.** The proliferation of debt related to but not directly supported by the County's General Fund shall be closely monitored and controlled to the extent possible, including revenue bonds of agencies supported by the General Fund, the use of the County's moral obligation and underlying debt.
- a. A moral obligation exists when the Board of Supervisors has made a commitment to support the debt of another jurisdiction to prevent a potential default, and the County is not otherwise responsible or obligated to pay the annual debt service. The County's moral obligation will be authorized only under the most controlled circumstances and secured by extremely tight covenants to protect the credit of the County. The County's moral obligation shall only be used to enhance the credit worthiness of an agency of the County or regional partnership for an essential project, and only after the most stringent safeguards have been employed to reduce the risk and protect the financial integrity of the County.
 - b. Underlying debt includes tax supported debt issued by towns or districts in the County, which debt is not an obligation of the County, but nevertheless adds to the debt burden of the taxpayers within those jurisdictions in the County. The issuance of underlying debt, insofar as it is under the control of the Board of Supervisors, will be carefully analyzed for fiscal soundness, the additional burden placed on taxpayers and the potential risk to the General Fund for any explicit or implicit moral obligation.
10. **Diversified Economy.** Fairfax County must continue to diversity its economic base by encouraging commercial and, in particular, industrial employment and associated revenues. Such business and industry must be in accord with the plans and ordinances of the County.

LONG-TERM FINANCIAL POLICIES AND TOOLS

Through the application of the *Ten Principles*, careful fiscal planning and sound financial management, Fairfax County has achieved a "triple A" bond rating from the three leading rating agencies. The County has held a Aaa rating from Moody's since 1975, and a AAA rating from Standard and Poor's since 1978, and a AAA rating from Fitch Investors Services since 1997. Fairfax County is one of only 19 counties in the country with triple A ratings from all three rating agencies.

Only a handful of jurisdictions, including Fairfax County, have received a "triple A" bond rating from Moody's Investors Service, Standard and Poor's Corporation, and Fitch Investors Services:

- only 19 of the nation's 3,107 counties
- only 9 of the nation's 50 states
- only 10 of the nation's 22,529 cities

LONG-TERM FINANCIAL POLICIES AND TOOLS

LONG-TERM FINANCIAL POLICIES

The following is a description of the primary financial policies that are used to manage the County's resources and contribute to its outstanding fiscal condition. Each year during budget adoption, the Board of Supervisors reaffirms and approves budget guidelines for the next budget year. These guidelines then serve as a future budget development tool.

BUDGET GUIDELINES

On April 22, 2002, the Board of Supervisors reaffirmed and approved Budget Guidelines for Fiscal Year 2004. These guidelines are considered an important tool in the budget development process and are to be considered during future budget deliberations.

1. The Board directs the County Executive to develop a budget for Fiscal Year 2004 that limits increases in expenditures to projected increases in revenue.
2. Information on the FY 2004 revenue and economic outlook should be forwarded to the Board for discussion in Fall 2002 so that guidance to the County Executive regarding the tax rate as well as the transfer to the Schools can be provided by the Board. If Real Estate assessments continue to increase significantly, the Board will direct the County Executive to develop a budget for FY 2004 that includes a reduction in the Real Estate Tax.
3. The available balances materializing at the Carryover and Third Quarter Reviews which are not required to support County expenditures of a critical nature or to address the Board's policy on the Revenue Stabilization Fund, be utilized as follows:

Of the remaining balance, one-half will be allocated to the Schools to support non-recurring requirements.

The County will review paydown construction requirements or other one-time items for allocation of the balance of these funds.

4. In order to eliminate structural imbalances between County resources and requirements, resources should be allocated with consideration for the continued availability of these funds:

Non-recurring funds will be directed toward non-recurring uses.

Only recurring resources may be targeted toward recurring expenses.

5. The County's policy concerning the utilization of recurring and non-recurring funds should be followed by the School Board. The School Board should not use non-recurring balances that may materialize during quarterly reviews on recurring expenditures in the annual budget.
6. I move that the Board direct the following reviews of County programs: Compensation Program and Personnel Policies, County Fees and Fares, Section 8 Operating Deficits, Seniors-on-the-Go Program, Community Services Board MR Grad Program, County Replacement Funds and Reorganization Opportunities.

Managed Reserve

It is the express policy of the Board of Supervisors to maintain a managed reserve in the General Fund at a level sufficient for temporary financing of unforeseen emergency needs and to permit orderly adjustment to changes resulting from termination of revenue sources through actions of other governmental bodies. The reserve will be maintained at a level not less than 2.0 percent of total General Fund disbursements in any given year. This reserve has been maintained since FY 1983.

LONG-TERM FINANCIAL POLICIES AND TOOLS

Revenue Stabilization Fund

On September 13, 1999, the Board of Supervisors established a Revenue Stabilization Fund to provide a mechanism for maintaining a balanced budget without resorting to tax increases and expenditure reductions that aggravate the stresses imposed by the cyclical nature of the economy. The Revenue Stabilization Fund has a target balance of 3.0 percent of General Fund disbursements. The Fund is separate and distinct from the County's 2.0 percent Managed Reserve; however, the aggregate balance of both reserves shall not exceed 5.0 percent of General Fund disbursements. It is anticipated that the target balance of 3.0 percent of General Fund disbursements will be accomplished by transferring funds from the General Fund over a multi-year period. The Board of Supervisors determined that a minimum of 40 percent of non-recurring balances identified at quarterly reviews would be transferred to the Revenue Stabilization Fund. Additionally, the Fund will retain the interest earnings on this balance, and the retention of interest will continue until the Reserve is fully funded.

The Revenue Stabilization Fund will not be used as a method of addressing the demand for new or expanded services; it is solely to be used as a financial tool in the event of an economic downturn. Therefore, three specific criteria that must be met in order to make a withdrawal from the Fund include:

- Projected revenues must reflect a decrease greater than 1.5 percent from the current year estimate,
- Withdrawals must not exceed one-half of the fund balance in any fiscal year, and
- Withdrawals must be used in combination with spending cuts or other measures.

Other Reserves

In addition, to the Managed Reserve and the Revenue Stabilization Fund, the County has several reserves maintained within various funds. These reserves are necessary to provide a source of funding for planned replacement of major equipment or infrastructure over several years, or to maintain the necessary debt service reserves required to support the County's obligations on bond funded programs. For example, the County maintains a vehicle replacement reserve within the Department of Vehicle Services to plan for vehicle replacement once age, mileage, and condition criteria have been met. General Fund monies are set aside each year over the life of the existing vehicle in order to pay for its replacement. Helicopter, boat, ambulance, and large apparatus replacement funds are also maintained for the Police and Fire Departments. Fixed payments to these reserves are made annually to ensure funding is available at such time that the equipment must be replaced. The County also manages a Personal Computer (PC) Replacement Fund. For each existing PC, an amount of \$600 is collected annually for a period of four years, based on the estimated life cycle of the equipment and the future replacement cost. This reserve ensures that funding is available for future replacements to remain consistent with the advancements of technology. Another example of a County maintained reserve is the Sewer Bond Debt Reserve which was established to provide one year of principle and interest for the 1993 and 1996 bond series as required by the Sewer System's General Bond Resolution.

Third Quarter/Carryover Reviews

The Department of Management and Budget conducts a Third Quarter Review on the current year Revised Budget Plan which includes a detailed analysis of expenditure requirements. All Operating Agencies and Capital Construction Funds are reviewed during the third quarter and adjustments are made to the budget as approved by the Board of Supervisors. Section 15.1162.1 of the *Code of Virginia* requires that a public hearing be held prior to Board action when the potential increases in the appropriation are greater than \$500,000 or 1.0 percent of revenues. The Board's adopted budget guidelines indicate that any balances identified throughout the fiscal year which are not required to support expenditures of a legal or emergency nature, must be held in reserve.

LONG-TERM FINANCIAL POLICIES AND TOOLS

Carryover represents the analysis of balances remaining from the prior year and provision for the appropriation of funds to cover the prior year's legal obligations (encumbered items) in the new fiscal year without loss of continuity in processing payments. Carryover extends the prior year funding for the purchase of specific items previously approved in the budget process, but for which procurement could not be obtained for various reasons. All Operating Agencies and Capital Construction Funds are reviewed during the Carryover Review and adjustments are made to the budget as approved by the Board of Supervisors. Again, the *Code of Virginia* requires that a public hearing be held prior to Board action when the potential increases in the appropriation are greater than \$500,000 or 1.0 percent of revenues.

Cash Management/Investments

Maintaining the safety of the principal of the County's public investment is the highest priority in the County's cash management policy. The secondary and tertiary priorities are the maintenance of liquidity of the investment and optimization of the rate of return within the parameters of the *Code of Virginia*, respectively. Funds held for future capital projects are invested in accordance with these objectives, and in such a manner so as to ensure compliance with U.S. Treasury arbitrage regulations. An interagency Investment Committee develops investment policies and oversees the effectiveness of portfolio management in meeting policy goals.

The County maintains cash and temporary investments in several investment portfolios. A general investment portfolio holds investments purchased by the County for the pooled cash and general obligation bond funds. Investments for this portfolio are held by a third-party custodian. Other portfolios are managed to meet the specific needs of County entities, such as, the Resource Recovery Bonds, the Fairfax County Economic Development Authority Parking Revenue Bonds (the Vienna and Huntington Metrorail Projects), Sewer Revenue Bonds, Housing Bonds, and the Equipment Acquisitions Fund.

Except where prohibited by statutory or contractual constraints, the General Fund is credited with interest earned in the general investment pool. Non-General Fund activities that earn interest through centralized investment management contribute to the cost of portfolio management by way of a market-based administrative charge that accrues to the General Fund.

LONG-TERM FINANCIAL POLICIES AND TOOLS

Debt Management/Capital Improvement Planning

The Virginia Constitution requires that long-term debt pledged by the full faith and credit of the County can only be approved by voter referendum. There is no statutory limit on the amount of debt the voters can approve. It is the County's own policy to manage debt within the guidelines identified in the *Ten Principles of Sound Financial Management*. Specifically, debt service expenditures as a percentage of General Fund disbursements should remain under 10.0 percent and the percentage of debt to estimated market value of assessed property should remain under 3.0 percent. The County continues to maintain these debt ratios, as illustrated below:

Net Debt as a Percentage of Market Value of Taxable Property

<u>Fiscal Year Ending</u>	<u>Net Bonded Indebtedness</u>	<u>Estimated Market Value</u>	<u>Percentage</u>
1999	\$1,314,377,875	\$87,086,700,000	1.51%
2000	1,380,266,450	92,692,600,000	1.49%
2001	1,442,682,525	101,048,500,000	1.43%
2002 (est.) ¹	1,657,818,600	113,778,400,000	1.46%
2003 (est.) ¹	1,745,779,675	128,278,700,000	1.36%

¹ Beginning in FY 2002, the ratio includes outstanding Lease Revenue bonds for the Pennino and Herrity Buildings and outstanding Certificates of Participation for the South County Government Center in addition to General Obligation Bonds, Literary Loans and Special Revenue Bonds for Community Centers. In addition, sales of \$198.00 million for FY 2002 and \$221.10 million for FY 2003 have been included for projection purposes.

Debt Service Requirements as a Percentage of Combined General Fund Disbursements

<u>Fiscal Year Ending</u>	<u>Debt Service Requirements¹</u>	<u>General Fund Disbursements</u>	<u>Percentage</u>
1999	\$163,541,092	\$1,849,587,184	8.8%
2000	176,060,037	2,000,540,810	8.8%
2001	184,300,168	2,152,979,627	8.6%
2002 (est.)	206,803,310	2,322,878,256	8.9%
2003 (est.)	213,877,809	2,442,411,962	8.8%

¹ Beginning in FY 2002, the ratio includes debt service on Lease Revenue bonds for the Pennino and Herrity Buildings and Certificates of Participation for the South County Government Center in addition to General Obligation Bonds, Literary Loans and Special Revenue Bonds for Community Centers.

Per capita debt is also an important measure used in analyses of municipal credit. Fairfax County has historically had moderate to low per capita debt and per capita debt as a percentage of per capita income due to its steady population growth, and growth in the assessed valuation of property and personal income of residents, combined with a record of rapid repayment of capital debt. Per capita debt as a percentage of per capita income as of June 30, 2001 was 2.78 percent and has remained less than 4.0 percent since 1981.

LONG-TERM FINANCIAL POLICIES AND TOOLS

The *Ten Principles of Sound Financial Management* establish as a financial guideline a self-imposed limit on the level of the average annual bond sale. Adjustments to the sale limits are anticipated within the proposed revisions to the *Ten Principles*. Actual bond issues are carefully sized with a realistic assessment of the need for funds, while remaining within the limits established by the Board of Supervisors. In addition, the actual bond sales are timed for the most opportune entry into the financial markets.

The policy guidelines enumerated in the *Ten Principles of Sound Financial Management* also express the intent of the Board of Supervisors to encourage greater industrial development in the County and to minimize the issuance of underlying indebtedness by towns and districts located within the County.

It is County policy to balance the need for public facilities, as expressed by the countywide land use plan, with the fiscal capacity of the County to provide for those needs. The five-year Capital Improvement Program (CIP), submitted annually to the Board of Supervisors, is the vehicle through which the stated need for public facilities is analyzed against the County's ability to pay and stay within its self-imposed debt guidelines as articulated in the *Ten Principles of Sound Financial Management*. The CIP is supported largely through long-term borrowing that is budgeted annually in debt service or from General Fund revenues on a pay-as-you-go basis.

Pay-as-you-go Financing

Although a number of options are available for financing the proposed capital improvement program, including bond proceeds and grants, it is the policy of the County to balance the use of the funding sources against the ability to utilize current revenue or pay-as-you-go financing. While major capital facility projects are funded through the sale of general obligation bonds, the Board of Supervisors, through its *Ten Principles of Sound Financial Management*, continues to emphasize the importance of maintaining a balance between pay-as-you-go financing and bond financing for capital projects. Financing capital projects from current revenues indicates the County's intent to show purposeful restraint in incurring long-term debt. No explicit level or percentage has been adopted for capital projects from current revenues as a portion of either overall capital costs or of the total operating budget. The decision for using current revenues to fund a capital project is based on the merits of the particular project in relation to an agreed upon set of criteria. It is the Board of Supervisors' policy that nonrecurring revenues should not be used for recurring expenditures.

Risk Management

Continuing growth in County assets and operations perpetuates the potential for catastrophic losses resulting from inherent risks that remain unidentified and unabated. In recognition of this, the County has adopted a policy of professional and prudent management of risk exposures.

To limit the County's risk exposures, a Risk Management Steering Committee was established in 1986 to develop appropriate policies and procedures. The County Risk Manager is responsible for managing a countywide program. The program objectives are as follows:

- ◆ To protect and preserve the County's assets and work force against losses that could deplete County resources or impair the County's ability to provide services to its citizens.
- ◆ To institute all practical measures to eliminate or control injury to persons, loss to property or other loss-producing conditions.
- ◆ To achieve such objectives in the most effective and economical manner.

While the County's preference is to fully self-insure, various types of insurance such as workers' compensation, automobile, and general liability insurance remain viable alternatives when they are available at an affordable price.

LONG-TERM FINANCIAL POLICIES AND TOOLS

Pension Plans

The County funds the retirement costs for four separate retirement systems including: Educational Employees Supplemental Retirement System, Police Officers Retirement System, Fairfax County Employees' Retirement System and Uniformed Retirement System. These retirement systems are administered by the County and are made available to Fairfax County government and school employees in order to provide financial security when they reach an older age or cannot work due to disability. In addition, professional employees of the Fairfax County School Board participate in a plan sponsored and administered by the Virginia Retirement System. The Board of Supervisors reviews the Police Officers Retirement System, Fairfax County Employees' Retirement System and the Uniformed Retirement System plans annually and takes action to fund the County's obligation based on actuarial valuations that are usually performed annually. The School Board reviews the Educational Employees Supplemental Retirement plan annually and takes action to fund the County's obligation based on actuarial valuations that are usually performed annually. Benefits are defined in each system according to the requirements of an ordinance of the Fairfax County Code. Each retirement system is governed by a Board of Trustees whose function is the general administration and operation of the system. Each Board has full power to invest and reinvest the accumulated monies created by the systems in accordance with the laws of the Commonwealth as they apply to fiduciaries investing such funds. Investment managers are hired by each Board and operate under the direction of the Boards' investment objectives and guidelines. Each Board meets once a month to review the financial management of the funds and to rule on retirement applications.

Grants

County policy requires that all applications and acceptance of grant funds must be approved by the Board of Supervisors. Each grant application is reviewed for the appropriateness and desirability of the program or service. Upon completion of the grant, programs are reviewed on a case-by-case basis to determine whether the program should be continued utilizing County funds. The County has no obligation to continue either grant-funded positions or grant-funded programs, if continued grant funding is not available.

On November 20, 2000, the Board of Supervisors established a new County policy for grant applications and awards of less than \$5,000 that meet certain requirements. If a grant is less than \$5,000, does not require a Local Cash Match, does not create new positions, and if the grantor does not require Board of Supervisors' approval, the agency can work directly with the Department of Management and Budget to receive the award and reallocate funding from the anticipated/unanticipated reserve directly to the agency. For any grant that does not meet all of the specified criteria, the agency must obtain Board of Supervisors' approval in order to apply for or accept the grant award.

Close Management Initiatives (CMI) Program

The Close Management Initiatives (CMI) program, which was approved by the Board of Supervisors on June 28, 1993 and began in FY 1994, challenges agency directors and staff to identify means to streamline operations without reductions in service levels. Agencies and selected Other Funds are provided with target savings amounts to reach during the fiscal year. If an agency reaches the targeted savings amount, 60 percent of the identified savings is returned to the General Fund or falls to fund balance in Other Funds. The remaining 40 percent is retained by the agency for use at the director's discretion.

Contributory Policies

To improve the general health and welfare of the community, as well as leverage scarce resources, it is the policy of the Board of Supervisors to make General Fund appropriations of specified amounts to various nonsectarian, nonprofit, or quasi-government entities. Because public funds are being appropriated, funds provided to designated contributory agencies are currently made available contingent upon submission and review of financial reports. This oversight activity includes program reporting requirements that require designated contributories to describe accurately, in a manner prescribed by the County Executive, the level and quality of services provided to County residents.

LONG-TERM FINANCIAL POLICIES AND TOOLS

Information Technology

The following ten strategic directions are fundamental principles upon which Fairfax County will base its Information Technology (IT) decisions in the upcoming years. These are intended to serve as guidelines to assist County managers in applying information technology to achieve business goals.

Ten Information Technology STRATEGIC Directions

1. Provide citizens, the business community, and County workers with timely, convenient access to appropriate information and services through the use of technology.
2. Have business needs drive information technology solutions. Strategic partnerships will be established between the customer and County so that the benefits of IT are leveraged to maximize the productivity of County employees and improve customer service.
3. Evaluate business processes for redesign opportunities before automating them. Use new technologies to make new business methods a reality. Exploit functional commonality across organizational boundaries.
4. Manage Information Technology as an investment.
 - Annually allocate funds sufficient to cover depreciation to replace systems and equipment before life cycles end. Address project and infrastructure requirements through a multiyear planning and funding strategy.
 - Limit resources dedicated to “legacy systems” (hardware and software approaching the end of its useful life) to absolutely essential or mandated changes. Designate systems as “legacy” and schedule their replacement. This approach will help focus investments toward the future rather than the present or past.
 - Invest in education and training to ensure the technical staffs in central IT and user agencies understand and can apply current and future technologies.
5. Implement contemporary, but proven, technologies. Stay abreast of emerging trends through an ongoing program of technology evaluation. New technologies will often be introduced through pilot projects where both the automation and its business benefits and costs can be evaluated prior to any full-scale adoption.
6. Ensure that hardware and software adhere to open (vendor-independent) standards and minimize proprietary solutions. This approach will promote flexibility, interoperability, and cost-effectiveness, as well as will mitigate the risk of dependence on individual vendors.
7. Manage the enterprise network as a fundamental building block of the County’s IT architecture. The network will connect modern workstations and servers; will provide both internal and external connectivity; will be flexible, expandable, and maintainable; and will be fully integrated using open standards and capable of providing for the free movement of data, graphics, image, video, and voice.
8. Approach IT undertakings as a partnership between central management and agencies enabling centralized and distributed implementation. Combine the responsibility and knowledge of central management, and agency staff, as well as outside contract support within a consistent framework of County IT standards. Establish strategic cooperative arrangements with public and private enterprises to extend limited resources.
9. Emphasize the purchase and integration of top quality, off-the-shelf software (with minimal customization) to speed the delivery of new business applications. This will require redesigning some existing work processes to be compatible with off-the-shelf software packages. Utilize modern, efficient methods, and labor-saving tools in a cooperative application development environment. A repository for common information objects (e.g., databases, files, records, methods, application inventories) will be created, shared, and re-used.
10. Capture data once in order to avoid cost, duplication of effort, and potential for error and share the data whenever possible. Establish and use common data and common databases to the fullest extent. A data administration function will be responsible for establishing and enforcing data policy, data sharing and access, data standardization, data quality, identification, and consistent use of key corporate identifiers.

LONG-TERM FINANCIAL POLICIES AND TOOLS

FINANCIAL MANAGEMENT TOOLS AND PLANNING DOCUMENTS

This section is intended to provide a brief description of some of the financial management tools and long-range planning documents used by the County.

Budget

The primary financial management tool used by the County is the annual budget process. This involves a comprehensive examination of all expenditure and revenue programs of the County, complete with public hearings and approval by the Board of Supervisors.

Revenue Forecast

Revenue estimates are monitored on a monthly basis to identify any potential trends that would significantly impact the revenue sources. A Revenue Task Force meets regularly to review current construction trends, the number of authorized building permits, housing sales, mortgage rates, and other economic data which impact Real Estate Tax revenue collections. In addition, the Revenue Task Force uses statistical models to estimate such revenue categories as the Personal Property Tax; Local Sales Tax; Business, Professional, and Occupational License Tax; Consumer Utility Tax; Automobile License Tax; and Cigarette Tax.

Financial Forecast

A forecast of Combined General Fund receipts and disbursements is developed as part of each year's budget process and is updated periodically. Individual and aggregate revenue categories, as well as expenditures, are projected by revenue and/or expenditure type. Historical growth rates, inflation assumptions, and County expenditure priorities are all used in developing the forecast. This tool is used as a planning document for developing the budget guidelines and for evaluating the future impact of current year decisions.

Fiscal Impact Review

It is County policy that all items having potential fiscal impact be presented to the Board of Supervisors for review. Effective management dictates that the Board and County citizens be presented with the direct and indirect costs of all items as part of the decision making process. In addition to its preliminary review of items presented to the Board of Supervisors, County staff also review State and Federal legislative items, which might result in a fiscal or policy impact on the County.

Management Initiatives

The County has undertaken several management initiatives in its ongoing mission to make its government more productive, streamlined, and efficient.

Information Technology Initiatives

The County is committed to providing the necessary investment in information technology, realizing the critical role it plays in improving business processes and customer service. Fund 104, Information Technology Fund, was established to accelerate the redesign of business processes to achieve large-scale improvements in service quality and to provide adequate enterprise-wide technological infrastructure. Consequently, the County is consolidating its investments to accommodate and leverage technological advancements and growth well into the 21st century. Management continues to explore and monitor all areas of County government as potential candidates for further information technology enhancements and/or modifications.

LONG-TERM FINANCIAL POLICIES AND TOOLS

Performance Measurement

Beginning in FY 1998, management initiated a Performance Measurement system to ensure greater accountability to the citizens of Fairfax County, as well as provide better information for resource allocation decisions and enhance continuous improvement efforts. This system supports the regular collection of specific information regarding the results of service in Fairfax County. The County's performance measurement methodology links agency mission and cost center goals (broad) to quantified objectives (specific) of what will be accomplished during the fiscal year. The system places strong emphasis on these quantified objectives linked to a complete "Family of Measures" including output, efficiency, service quality, and outcome measures. The outcome measure is particularly important as it reflects the benefits County services have on customers, both internal and external (citizens). The Performance Measurement initiative is an iterative process, which continues to be reviewed and updated to ensure the most efficient and effective way to report performance to the public.

Performance Management/Pay for Performance

In FY 2001, a new performance management system for non-public safety employees was implemented. This system is based on an on-going dialogue between employees and supervisors regarding performance and expectations. In addition, the system focuses on employee evaluations, developing specific requirements for the employee's position, and links pay increases directly with performance. All employees are eligible for variable pay increases of 0, 2.5, 3, 3.5, 4, 4.5, 5, 5.5, 6, 6.5, or 7 percent, depending on their annual performance rating. In addition, high performing employees at the top of their pay range are eligible for either a 3 or 5 percent annual lump sum bonus. As with the Performance Measurement initiative, Performance Management/Pay for Performance will continue to be monitored and fine-tuned to achieve a system that is both effective and financially viable.

Capital Improvement Program (CIP)

In connection with a comprehensive land use plan, the Board of Supervisors annually reviews a five-year Capital Improvement Program (CIP). The CIP includes five years of project planning and forecasts project requirements for an additional three-year period. The CIP is designed to balance the need for public facilities as expressed by the countywide land-use plan with the fiscal capability of the County to meet those needs. The CIP serves as a general planning guide for the construction of general purpose, school, and public utility facilities in the County. The CIP process provides a framework for careful development of reliable capital expenditure and revenue estimates, as well as the timely scheduling of bond referenda.

The CIP is an integral element of the County's budgeting process. The first year of the advertised five-year CIP is the foundation for the Capital Budget. Action by the Board of Supervisors to adopt the Capital Budget alters the first year of the CIP, as well. The remaining four years in the CIP serve as a general planning guide on the impact of undertaking the construction program. Future planning requirements three years beyond the CIP period are also included. The CIP is supported largely through long-term borrowing, which is budgeted annually in debt service or from General Fund revenues on a pay-as-you-go basis.